

Trading and financing through commodities in the Kingdom of Saudi Arabia

Your strategic advisor for Indirect Tax matters



There has been a recent upward trend in the commodities trading and financing market across the Gulf Cooperation Council (GCC) region, including the Kingdom of Saudi Arabia (KSA). As a result, businesses are now developing products and services to cater to the growing need. Some of these products are technology focused and have resulted in more complex and fast paced trading involving counter-parties that do not have a presence in the Kingdom.

This has resulted in a range of potential risk areas for commodity market participants including:



VAT registration obligations for non-resident traders

There is no Value Added Tax (VAT) registration threshold for non-residents with an obligation to account for VAT in the KSA (where the KSA customer is not liable to account for VAT in KSA under the reverse charge mechanism). Where non-residents are trading within the Kingdom, including KSA territorial waters and the KSA Exclusive Economic Zone, this may create VAT registration and compliance obligations.



Overseas VAT registration obligations for KSA traders/financial institutions

As part of trading or Islamic financing products (such as e.g., tawarruq/commodity murabaha), the KSA traders/financial institutions may purchase or trade in commodities which are physically located overseas. Whilst the GCC VAT rules may allow such trading to be ignored locally, this activity may create VAT registration and compliance obligations for financial institutions and others that trade on this basis in the foreign location.



Input VAT recovery for financial institutions

Financing income earned by financial institutions is in principle exempt from VAT. However, the purchase and sale of underlying commodities may be out of scope of VAT (as an integral part of an Islamic financing product). The financial institutions may consequently face challenges in recovering their input VAT on costs associated with such Islamic financing products.



VAT registration for a branch

The KSA branch of a foreign entity may have VAT registration and compliance obligations in the Kingdom if it is or could be said to be the branch most closely connected to supplies made or received within the KSA.



Trading platforms

Various fees, payments, services, offsets and discounts are applied on trading platforms, and sometimes they are on a net basis without the full accompanying documentation. This creates added risk and complexity. Services provided via online platforms may also be subject to special place of supply rules.



Why now?

Tax audits and enforcement actions by the Zakat Tax, and Customs Authority (ZATCA) are becoming increasingly sophisticated, with a focus on common errors and industry specific issues. The ZATCA leverages daily interactions throughout the administrative cycle to validate taxpayer compliance, such as refund applications, administrative requests, and de-registration.



How can Deloitte assist?

Transaction mapping exercise

Transaction maps document each relevant transaction type for the purpose of validating classification and evidence requirements. This can be used to support the automation of systems for VAT determination and reporting purposes.

VAT health check exercise

Healthchecks are an industry focused stress test of the technical positions and procedural structures that have been put in place within the business to provide comfort that the business is compliant with the VAT legislation.

Documentary evidence review

Review the documentation retained for each supply by category in order to identify risk and recommend action.

VAT refund request review

Review of the VAT refund request template for the Tax period and corresponding VAT return in order to seek to identify risks and suggested corrective actions for consideration by the business prior to its submission of the VAT refund request.

VAT return review

We can perform a detailed review of the VAT return, whilst applying the knowledge gained from broader compliance activities and industry specific risk areas to highlight key issues and recommend action.

Remediation assistance

We will work with you to develop a strategic approach to address any remediation required.



Why Deloitte

Integrated team:

Our team is comprised of highly qualified and dedicated Tax specialists with experience across commodities and sectors. The team consists of more than 120 Indirect Tax specialists across the GCC region and is complimented by the industry and technical strengths of the broader VAT team across the GCC to provide companies with the right team of experts.

Relationship with the Tax authority:


Our team has developed a strong professional relationship with the ZATCA from the time of establishment. Deloitte was established in the Middle East region and has had an uninterrupted presence since 1926.

Industry experience:

Our team has hands-on experience with some of the leading KSA financial services sector players in the market and experience and qualifications specific to Islamic finance products.

Contacts

We have a large team of dedicated tax experts based in KSA who can answer your questions and support you throughout the implementation of the review as listed below:



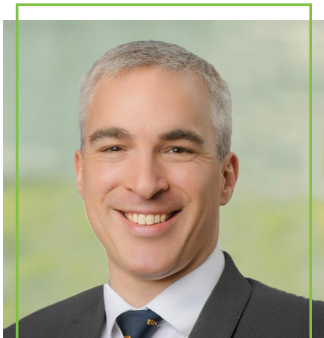
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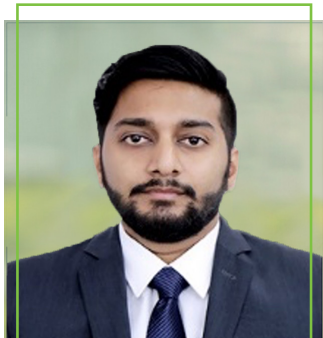
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